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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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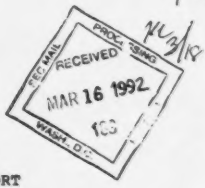

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For Quarter Ended January 31, 1992

PROCESSED BY
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Direct Connect International Inc.
700 Godwin Avenue
Midland Park, New Jersey 07432
(201) 445-2101

0-18288

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 1992

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number

0-18288

DIRECT CONNECT INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2705223 (I.R.S. Employer Identification No.)
700 Godwin Avenue Midland Park, New Jersey (Address of principal executive offices)	07432 (Zip Code)

Registrant's telephone number, including area code - (201) 445-2101

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES X NO _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of January 31, 1992: 7,562,066.

DIRECT CONNECT INTERNATIONAL INC. AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIRECT CONNECT INTERNATIONAL INC. AND SUBSIDIARY
Consolidated Balance Sheets

	January 31, 1992 (Unaudited)	April 30, 1991
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 30,836	$ 242,665
Certificates of deposit (restricted)	84,915	144,864
Accounts receivable - trade	34,408	23,318
Inventories	275,000	631,161
Notes receivable - officers	169,814	156,140
Advance to contractor	104,679	99,504
Prepaid royalties	235,440	205,440
Prepaid expenses	11,482	53,815
Total current assets	946,574	1,556,907
Fixed assets - at cost:		
Furniture and fixtures	35,698	34,390
Molds, tools, and dies	313,075	294,974
	348,773	329,364
Less: Accumulated depreciation	91,013	42,020
	257,760	287,344
Security deposits	854	2,354
Organization expense-net of accumulated amortization of $945 at January 31, 1992; $851 at April 30, 1991	-0-	94
	$ 1,205,188	$ 1,846,699
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 254,769	$ 219,340
Accrued expense and taxes payable	159,705	94,316
Notes payable - shareholders	278,179	274,645
Total current liabilities	692,653	588,301
Commitments and contingencies		
Shareholders' equity:		
Preferred stock: Authorized 5,000,000 shares, $.001 par value; issued and outstanding - none	-0-	-0-
Common stock: Authorized 15,000,000 shares, $.001 par value; issued and outstanding - 7,562,066 shares	7,562	7,562
Capital in excess of par value	2,628,924	2,628,924
Deficit	(2,123,951)	(1,378,088)
Total shareholders' equity	512,535	1,258,398
Total liabilities and shareholders' equity	$ 1,205,188	$ 1,846,699

DIRECT CONNECT INTERNATIONAL INC.
AND SUBSIDIARY
Consolidated Statements of Operations

	For the Three Months Ended		For the Nine Months Ended	
	January 31 1992	January 31 1991	January 31 1992	January 31 1991
	(Unaudited)		(Unaudited)	
Revenues:				
Sales	$ 426,691	$ 46,700	$1,454,995	$ 836,749
Expenditures:				
Cost of goods sold	400,868	27,457	1,061,905	643,139
Royalties/Licensing Fees	(6,369)(a)	10,703	137,223(a)	138,985
Product development cost	42,896	1,750	72,398	1,750
Depreciation and amortization	16,330	11,439	49,087	25,112
Selling, general and administrative expense	305,242	238,940	853,560	743,977
	758,967	290,289	2,174,173	1,552,963
Operating Loss	(332,276)	(243,589)	(719,178)	(716,214)
Interest/Dividends on certificates of deposit and other cash equivalents	4,287	13,706	15,529	69,546
Interest expense	(7,014)	—	(42,214)	—
Net Loss	($ 335,003)	($ 229,883)	($ 745,863)	($ 646,668)
Loss per share	($ .04)(b)	($ .03)(c)	($ .10)(b)	($ .08)(c)

(a) Royalties paid amounting to $18,000 were adjusted in the current period due to an over accrual in the prior three month period.

(b) Based upon 7,562,066 weighted average number of common shares outstanding during the period ended January 31, 1992

(c) Based upon 8,041,666 weighted average number of common shares outstanding during the period ended January 31, 1991

DIRECT CONNECT INTERNATIONAL INC. AND SUBSIDIARY

Consolidated Statements of Cash Flow

	For the Nine Months Ended	
	January 31, 1992	January 31, 1991
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net income (loss)	$ (745,863)	$ (646,668)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,087	25,112
	(696,776)	(621,556)
Decrease (increase) in assets:		
Accounts receivable-trade	(11,090)	116,291
Prepaid royalties	(30,000)	(117,500)
Prepaid expenses	42,333	(16,728)
Advance due to contractor	(5,175)	74,725
Inventory	356,161	(284,449)
Increase (decrease) in liabilities:		
Accounts payable	35,429	102,838
Accrued expenses and taxes payable	65,389	(44,021)
Total adjustments	453,047	(168,844)
Net cash used in Operating activities	(243,729)	(790,400)
Cash Flows From Investing Activities:		
Certificates of deposit (restricted)	59,949	(138,091)
Notes receivable-officers	(13,674)	(18,589)
Acquisition of molds, tools and dies	(18,101)	(242,835)
Acquisition of fixed assets	(1,308)	(11,752)
Decrease in security deposits	1,500	150
Net cash used in investing activities	28,366	(134,935)
Cash Flows From Financing Activities:		
Notes payable - shareholders	3,534	—
Sale of Common Stock - Net of offering expenses	—	(125,262)
Net cash provided by financing activities	3,534	(125,262)
Net decrease in cash and cash equivalents	(211,829)	(1,050,597)
Cash and cash equivalents at beginning of period	242,665	1,126,751
Cash and cash equivalents at end of period	$ 30,836	$ 76,154
Supplemental Disclosures of Cash Flow Information:		
Schedule of non-cash investing and financing activities:		
Common Stock delivered to executive officer from treasury shares	$ -0-	$ 2,500

DIRECT CONNECT INTERNATIONAL INC.
AND SUBSIDIARY

Notes to Financial Statements

1. In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly (a) the financial position as of January 31, 1992 and April 30, 1991, (b) the results of operations for the three and nine months ended January 31, 1992 and January 31, 1991 and (c) changes in cash flows for the nine months ended January 31, 1992 and January 31, 1991.

2. Refer to the audited financial statements for the fiscal year ended April 30, 1991 for details of accounting policies and accounts, none of which have changed significantly in composition since that date.

3. The Company has available carry forward losses applicable to the reduction of future Federal income taxes aggregating approximately $2,215,000 at January 31, 1992 and which expire during the years 2003 to 2006.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE MONTHS AND NINE MONTHS ENDED JANUARY 31, 1992

Background

The Company designs, develops, markets and distributes a variety of infant and preschool toy products which are manufactured in the Far East. The Company introduced its initial product line in January 1987 which included its proprietary infant and preschool toys, general soft toys, sound activated toys and seasonal toys. As set forth below, the Company made a decision to use its resources during 1988 to develop a significant and consumer recognized product line in a license/royalty program rather than devote its resources to developing sales of its proprietary products which the Company believed would not provide comparable growth in its business. Management believes that its decision to distribute lines of products based on well-established consumer recognized characters and brands will result in a long-term business and reduces the possibility of a change in the direction of its operations. The Company entered into exclusive license arrangements to sell products consisting of the full range of Muppets™ and Muppet Babies™ characters marketed under the trademarks Jim Henson's Muppets™ and Muppet Babies™ and a full range of baby products including infant and preschool toys and accessories under the trademark Dr. Denton®. Subsequent to the 1990 fiscal year, the Company entered into an exclusive license arrangement to sell dressed soft-bodied dolls consisting of characters known as The Little Raggedys™ which included Little Raggedy Ann™, Little Raggedy Andy™ and associated Little Raggedy™ characters with an option which the Company exercised to sell nursery toys relating to such characters. The Company also entered into a license arrangement with the creators of Bozo the Clown™ to sell Bozo's Clown Babies™ and related animal character stuffed toys. The Company has also entered into exclusive license agreements to sell stuffed figures for the Chipmunks® and Chipettes™, stuffed toy figures for Popeye® and related characters, stuffed toys and dolls based on characters from Viacom's Nickelodeon® TV Cable Network children's program, Eureeka's Castle™, stuffed toy figures for the Berenstain Bears™ and stuffed figures for Hanna-Barbera's famous characters including The Flintstones™, Jetsons™, Scooby Doo and Friends™ and Yo Yogi.™

Results of Operations

Net Sales

Net sales for the three and nine month periods ended January 31, 1992 amounted to $426,691 and $1,454,995, respectively, as compared to $46,700 and $836,749 respectively, for the same periods in the prior fiscal year.

Substantially all of the sales consisted of Muppets™ and Muppets Babies™ products. The Dr. Denton® product line, which is largely manufactured of molded hard plastic materials, required a longer development time before tooling and molds were in place. The Company introduced the initial line during the Company's third quarter of fiscal 1991 with significant shipments expected to begin early in fiscal 1993.

Significant shipments of the Company's Little Raggedys™, Bozo's Clown Babies™, Chipmunks® and Chipettes™, Popeye® and Eureeka's Castle™ product lines are expected to begin early in fiscal 1993.

At January 31, 1992 the Company had a backlog of approximately $220,000 in sales orders compared to a backlog of approximately $-0- in sales orders at January 31, 1991.

In order to arrive at the completed stage, the Company's products must go through the following processes: product concept and design, product development and engineering, pre-production approval and product manufacture and distribution. For the nine months ended January 31, 1992, the Company incurred approximately $20,000 in capital expenditures for tooling and molds. The Company currently anticipates incurring a total of $35,000 of costs for tooling and molds in fiscal 1992 based on successful distribution of its products.

Currently, substantially all of the Company's sales are made on a direct import basis to customers and, as a result, there is no need to finance any inventory. However, in order to support the Dr. Denton® product line, the Company has taken an inventory position currently aggregating $275,000. This inventory is fully paid.

Gross Profit

Gross Profit percentage changed from 41% and 23% for the three and nine month periods ended January 31, 1991, respectively, to 6% and 27% for the three and nine month periods ended January 31, 1992, respectively. The significant change was due primarily to promotional discounts given in the current three month period to raise cash for working capital requirements. The Company expects to continue its promotional discounts during the balance of fiscal 1992 and expects that its gross profit percentage will be approximately 10% during the balance of fiscal 1992 for sales of its products.

Royalties/Licensing Fees

For the nine month period ended January 31, 1992 royalties of $137,223 were paid as compared to $138,985 for the nine month period ended January 31, 1991. Royalties/Licensing fees as a percentage of sales are expected to remain constant during the balance of fiscal 1992. Royalties/licensing fees for the three month period ending January 31, 1992 were adjusted to reflect an over accrual amounting to $18,000 in the prior three month period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three and nine month periods ended January 31, 1992 were $305,242 and $853,560, respectively, as compared to $238,940 and $743,977, respectively, for the corresponding periods in the prior year. The following table shows the major components.

	Three Months Ended		Nine Months Ended	
	01/31/92	01/31/91	01/31/92	01/31/91
Salaries, payroll taxes and employee benefits	$ 92,136	$ 79,188	$277,827	$230,097
Travel and entertainment	16,462	30,895	50,201	77,085
Professional fees	27,621	23,552	101,752	117,875
Insurance	10,388	7,490	28,737	22,548
Rent and office expense	24,748	17,817	92,912	64,973
Advertising and promotion	54,968	31,742	84,231	130,098
Other	45,390	14,701	89,775	66,730
Warehouse & freight in	20,338	32,407	86,926	33,423
Commissions	13,191	1,148	41,199	1,148
	$305,242	$238,940	$853,560	$743,977

Professional fees were $27,621 and $101,752 for the three and nine month periods ended January 31, 1992, respectively, as compared to $23,552 and $117,875 for the three and nine month periods ended January 31, 1991, respectively. This overall decrease was due to the reduction of professional services. Commissions, advertising and travel and entertainment expenses amounted to $84,621 and $175,631 for the three and nine month periods ended January 31, 1992, respectively, as compared to $63,785 and $208,331 for the three and nine month periods ended January 31, 1991, respectively. This overall decrease resulted from the Company's cost management efforts and the addition of outside sales representatives which bore more of these costs in the current nine month period; however, in an effort to stimulate sales, the Company increased its promotional costs during the three month period ended January 31, 1992.

Warehouse expense amounted to $20,338 and $86,926 for the three and nine month periods ended January 31, 1992, respectively, as compared to $32,407 and $33,423 for the three and nine month periods ended January 31, 1991. This expense was due to the domestic inventory position the Company maintained during these periods.

For the three and nine month periods ended January 31, 1992, salaries and related expenses were $92,136 and $277,827, respectively, as compared to $79,188 and $230,097 for the three and nine month periods ended January 31, 1991, respectively. The increase in salaries and related expenses was primarily attributable to the inclusion of the salary and related expenses of the Senior Vice President - Sales pursuant to an employment contract and the salary and related expenses of an Administrative Assistant and general employee salary increases.

Other

At January 31, 1992, the Company had available carry forward losses applicable to the reduction of income taxes of approximately $2,215,000 which expire during the years 2003 to 2006.

Liquidity and Capital Resources

In November and December 1989, as a result of the consummation of an initial public offering of its securities, the Company received the aggregate net amount of $2,304,542 from the sale of 2,875,000 newly-issued shares of common stock and warrants exercisable for an additional 4,312,500 shares of common stock. Of the amount received, approximately $720,000 was applied to the payment of all outstanding indebtedness and accounts payable. The balance of the net proceeds from such offering was used for increased product development, product inventory, marketing and promotion and working capital.

In order to supplement its cash flow, the Company, on March 6, 1991, entered into loan agreements with several investors whereby the Company borrowed an aggregate of $282,000 for six months with interest at the semiannual rate of 14.5%. As part of such transaction, the Company issued to such investors, in a private placement, an aggregate of 17,000 shares of its common stock, on a restricted basis, for an aggregate consideration of approximately $22,000. In October 1991, the Company paid off $32,000 (plus accrued interest) with respect to such loans. At such time the Company renegotiated the balance of such loans (plus accrued interest) and issued new notes, maturing in one year, amounting to $276,000 with interest thereon at the annual rate of 10%

At January 31, 1992, the Company had a cash and cash equivalent balance of $115,751 of which $84,915 are restricted funds, as compared to a cash and cash equivalent balance of $387,529, which included $144,864 of restricted funds at April 30, 1991, a decrease of $271,778. This decrease was principally due to cash outlays from operating activities of $243,729 resulting from a net cash loss for the nine months ended January 31, 1992 which was partially offset by receipts of $3,534 from financing activities relating to the increase in, and restructuring of, notes payable, and the receipt of security deposits in the amount of $1,500. Additional reductions of cash resulted from the purchase of molds amounting to approximately $20,000 and an increase in notes receivable from officers in the amount of $13,674 and the acquisition of office equipment for $1,308. The Company expects, although there can be no assurance, that cash provided from operations together with this cash surplus will be sufficient to satisfy the Company's working capital and normal capital expenditure needs over the next three months. The Company expects to be able to handle its cash flow needs as a result of anticipated business over the next several months. The Company will continue to experience cash flow difficulties if such business does not materialize according to the Company's current sales plan.

The Company moved to larger quarters on January 1, 1990 and incurred $6,000 of capital expenditures for furniture and fixtures. This move will result in increased rental expenses of approximately $30,400 in 1992 and an aggregate of $78,400 over the term of the lease which expires on December 31, 1992.

The Company has entered into license agreements for products with respect to which substantial sales are not expected to commence until early in fiscal 1993. The Company expects that $35,000 of development costs will be incurred to bring these products to their completed stage.

The Company believes, although there can be no assurance, that its anticipated fiscal 1992 sales of its products and current cash funds will provide sufficient funds to meet all of its capital requirements during the next three months. However, additional cash resources may become available. On November 9, 1990, the Company's Redeemable Class A Warrants and Redeemable Class B Warrants became exercisable. If all such outstanding warrants were to be exercised, it would result in additional cash to the Company of approximately $6,000,000, although given the current market prices of the Company's securities, such funds are unlikely to be available in the short-term, and no assurance can be given as to the number of warrants that will be exercised.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On March 2, 1992 the NASD implemented the final phase relating to listing and maintenance standards for quotation of securities on the National Association of Securities Dealers Automated Quotation system (NASDAQ). Because of the inability of the Company to meet the new criteria, NASDAQ has advised the Company that its securities will be delisted from NASDAQ at the opening of the market on March 27, 1992. For those companies, including the Company, which will be unable at this time to meet the new standards, the NASD is offering the services of another market, the OTC Bulletin Board. The Company has been advised that, like NASDAQ, this new market is electronic and screen-based and that the OTC Bulletin Board provides a market for companies, including the Company, until they requalify for NASDAQ. The Company has also been advised that quotation information on OTC Bulletin Board securities is available on stockbrokers' desktop terminals. According to NASDAQ, companies will continue to enjoy visibility among securities professionals and investors on the Bulletin Board.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits - None

Reports on Form 8-K - None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIRECT CONNECT INTERNATIONAL INC.
(Registrant)

Date March 12, 1992 By _____
Peter L. Schneider
President and Chief
Executive Officer

Date March 12, 1992 By _____
Barry A. Rosner
Treasurer and Chief
Financial Officer